

## Module 6:

## Audits

### Slide notes

Welcome to Module 6 of the ITCA Fiscal 101. In this module, we will be discussing the exciting world of audits. There are a number of different types of State and Federal audits that your lead agency could potentially be subject to, including internal (agency) audits and State or Federal Inspector General audits, but the focus of this session will be on the single audit process.

# Single Audit

- Rigorous
- Organization-wide
- For entities spending \$750,000+ Federal funds

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A Single Audit is a rigorous, organization-wide audit or examination of an entity that expends \$750,000 or more of Federal funds received for its operations.

The OMB Uniform Guidance includes a wealth of information about that audit process, including thresholds for when a program is required to be audited, the criteria included in those audits for different Federal programs, and what type of follow-up must occur to address any findings made in the audit process.

We have chosen a question/answer format for this discussion. If you have a question that is not included in this presentation, or would like more information related to a question that is included, please feel free to contact your OSEP State Lead or OSEP Audit Facilitator.

## Audits (2 CFR §200.501)

1. Who is required to have a single audit?
2. What instrument do auditors use when completing a single audit?
3. What requirements does the compliance supplement include for Part C?
4. What are the auditee's responsibilities?
5. What are the Federal Department's responsibilities?

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We will be addressing the following 5 questions:

1. Who is required to have a single audit?
2. What instrument do auditors use when completing a single audit?
3. What requirements does the compliance supplement include for Part C?
4. What are the auditee's responsibilities?
5. What are the Federal Department's responsibilities?

# Who is required to have a single audit?

## You are!

Any lead agency that expends \$750,000 in Federal funds during the fiscal year

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Who is required to have a single audit? The short answer to this question for most of you viewing this module is that "You are." Any lead agency that expends \$750,000 in Federal funds during the fiscal year is required to have a single audit covering that period. Every Part C program meets this threshold each year and, as a result, every lead agency receives a single audit in accordance with the requirements in Subpart F of the Uniform Guidance.

Even if you have not had direct experience with the single audit process, it's likely that you have some level of awareness of the process while the auditors are on site performing their annual (or bi-annual in some cases) visit of the lead agency.

It's important to note that, while a single audit is performed annually or bi-annually on your lead agency, there may not necessarily be direct contact with the IDEA Part C program, or testing of financial records for the program, in a given audit. This is because the auditor has discretion about the programs that it reviews during the audit process, and that process is driven in part by the size of the programs contained in the agency.

During the audit process, auditors perform a risk assessment and make Major Program Determinations that are driven by factors such as the size of the grant and prior audit findings. Because they tend to be smaller programs within the lead agency, and typically represent only a small fraction of the agency's total expenditures, Part C programs are less likely to receive this designation.

As a result, direct testing of the program is less likely, though not terribly uncommon.

# What instrument do auditors use when completing a single audit?

Click to View the Compliance Supplement ([Appendix XI of the OMB Uniform Guidance](#))

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What instrument do auditors use in performing a single audit? When performing single audits, auditors use a Compliance Supplement that can be found in Appendix XI of the OMB Uniform Guidance. That supplement includes sections for each Federal agency and the programs that they support. Because of its comprehensive nature, you can probably imagine how massive the combined set of requirements is.

The fiscal year 2017 Compliance Supplement was 1667 pages long. Fortunately, when reviewing lead agencies for IDEA Part C programs, the auditor will apply only a small fraction of the requirements included in the full supplement. Those requirements include: 1. Cross-cutting requirements that apply to all US Department of Education grants; and 2. Program-specific requirements for IDEA Part C programs.

We will talk a little more about the specific requirements included in those sections in the next question.

In addition to providing the auditor with requirements that apply to each of the Department's programs, the compliance supplement also serves the important purpose of providing the auditor with a brief description of each program and its purpose. That information supports the auditor in determining the types of activities and related costs that might be expected under the particular Federal grant award.

The compliance supplement also includes links to guidance documents issued by the Department and its specific program offices that might be useful to auditors in completing their work.

# What requirements does the compliance supplement include for Part C?

- Cross-cutting
- IDEA-specific

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What requirements does the compliance supplement include for Part C? As we mentioned in response to the question above, the compliance supplement for the Department of Education includes both cross-cutting and IDEA-specific requirements that apply to Part C programs. Let's take a few minutes to discuss each.

The cross-cutting section of the compliance supplement includes requirements that apply to all Department grants including the requirements for timely obligation and liquidation of Department grant funds described in Module 2, cost principles and consideration for the allowability of specific expenditures that we discussed in Module 4, and indirect costs described in Module 5 of this Fiscal 101 training.

This section of the compliance supplement also includes specific items from the cost principles, including the time and effort reporting requirements for personnel expenses against Department grant awards.

The section of the compliance supplement dedicated specifically to Part C provides the auditor with the source of the program's governing requirements (i.e., the IDEA Part C statute and regulations) and a description of the types of activities that constitute allowable expenditures of IDEA Part C funds.

As you would expect, those activities include maintaining a State-wide comprehensive coordinated system, expanding and providing early intervention services, and State Interagency Coordinating Council functions.

The section also includes information for the auditor on prior approvals for the program, and the requirements for meeting Part C maintenance of effort requirements. These requirements, and the findings that are made related to them through the audit process, fall under a number of broad categories that are listed in the supplement.

For Part C programs those categories include, but are not limited to: Cost Principles, Cash Management, Equipment Management, Reporting, Subrecipient Monitoring, and Procurement.

Under each of those categories, there are then a number of related requirements that the auditor may examine during the audit process.

# What are the auditee's responsibilities?

## 4 Responsibilities:

1. Procure or otherwise arrange for the audit
2. Prepare financial statements for the auditor's review, as well as a schedule of expenditures of Federal Awards
3. Provide auditor access to accounts, records supporting documentation and personnel with knowledge of them
4. Take corrective action related to any audit finding

## Slide notes

What are the auditee's responsibilities? Generally speaking, there are four responsibilities that your lead agency has in the single audit process. The first is to procure or otherwise arrange for the audit itself. The Uniform Guidance includes a number of factors that should be considered in the process of selecting an auditor, including relevant experience, professional qualifications, a review of quality control reviews, and price.

While this allows for a lead agency to use the State's procurement process to select an auditor, in most cases for IDEA grantees, it is a State audit office that performs the single audit of each of the State agencies.

The lead agency is also responsible for preparing financial statements for the auditor's review, as well as a schedule of expenditures of Federal Awards. The latter may be of interest, as it will include a list of the Federal programs operated by the agency, the total expended for each of those programs, and identifying information for each program.

The lead agency is also responsible for providing the auditor access to its accounts, records, supporting documentation, and the personnel with knowledge of them. This is consistent with the Uniform Guidance record retention and access requirements that we discussed in Module 3 of this Fiscal 101.



Finally, each lead agency is responsible for taking corrective action related to any audit findings made in the single audit process. In fulfilling this last responsibility, the lead agency is required to prepare a summary of prior audit findings, and to develop a corrective action plan for addressing each finding included in the current year's audit.

That corrective action plan should also include information about the corrective actions, the person or persons responsible, and the anticipated completion date for taking those actions.

After receiving the results of the audit, the lead agency also has the opportunity to disagree with any audit findings, and to provide an explanation that includes the specific reasons for that disagreement. This typically elicits a further response from the auditor that is included in the audit report received by OSEP.

# What are the Federal Department's responsibilities?

1. Advise the auditor
2. Provide support in interpreting requirements
3. Coordinate follow-up activities with grantees, including review of documentation of corrective actions and ensure consistency of decisions related to the sufficiency in addressing auditor's findings
4. Issue management decisions (Program Determination Letters)
5. Provide monitoring and technical assistance
6. Issue a closeout letter once satisfied with steps lead agency has taken

## Slide notes

What are the Federal Agency's Responsibilities? During the audit process the Department may be asked to advise the auditor and/or auditee, and provide support in interpreting the requirements in the compliance supplement for the Part C program. In practice, this often involves OSEP having discussions with the Part C program and auditor about a specific requirement for the program.

For example, what types of funds should be included in the lead agency's methodology for calculating Part C maintenance of effort. As we mentioned earlier, auditors do not typically have a great deal of knowledge about, or experience with, specific Federal programs.

These discussions can be helpful in supporting the auditor to make a legally supportable finding, or eliminate a potentially unsupported finding, based on additional information provided by OSEP.

The Department is also responsible for coordinating its audit follow-up activities with grantees.

For findings that involve multiple program offices in the Department, rather than having multiple program offices send the lead agency duplicative requests for updates on corrective actions, and/or documentation related to the actions that it has taken to address those findings, those programs should be communicating with one another and coordinating the Department's requests.

Program offices within the Department are also subsequently responsible for coordinating the review of the documentation of corrective actions provided by the lead agency, and ensuring the consistency of decisions related to their sufficiency in addressing the auditor's findings.

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Once the program offices have coordinated their request and review of documentation from the lead agency, the next step is for the Department to issue what the uniform Guidance refers to as a "management decision." Within the Department, these decisions take the form of program determination letters, or PDLs, that include a number of standard components.

First, PDLs summarize the finding made by the auditor, including the specific area or areas of noncompliance identified, the auditor's recommendations, and the response of the auditee.

The PDL then provides the Department's decision to either sustain or not sustain the finding made by the auditor, and to agree with or not agree with the auditor's recommendations. The determination section of the PDL also describes the corrective actions taken by the lead agency to address each finding, and a decision about whether those actions were sufficient to resolve the finding.

In instances where OSEP determines that those corrective actions were reasonably designed to address the issues identified by the auditor, the finding can be closed with no further action required on the part of the lead agency.

In situations where OSEP determines that the corrective actions taken by the lead agency are not sufficient to address the issues identified by the auditor, and ensure compliance with the underlying criteria prospectively, the PDL will include a section requiring additional corrective actions, and describing the steps that the lead agency will need to take to close the finding.

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The final phase of OSEP's audit resolution process involves monitoring to ensure that the lead agency takes prompt corrective action, and providing technical assistance to support the lead agency in implementing required reforms.

After the PDL is issued, OSEP is available to participate in discussions with fiscal staff within the lead agency, review of draft policies and procedures developed to ensure that the lead agency is meeting Federal requirements, and/or to support the lead agency with the implementation of those policies.

Once OSEP is satisfied that the lead agency has taken steps that are reasonably designed to ensure compliance, OSEP will issue a closeout letter summarizing and accepting the additional corrective actions taken by the lead agency.

## Reminders

1. The lead agency should have both preventative and detective controls.
  - Audits are a detective control; non-compliance has already occurred and correction is therefore more time consuming and burdensome.
2. Single audits are not a substitute for fiscal monitoring.

### Slide notes

Before we end this module, there are a couple important points that we would like to highlight:

The first is that audits are a detective control which means that, by definition, the noncompliance identified in audit reports has already occurred. As we mentioned in Module 3 of this training, the process of correcting findings is generally more time consuming and burdensome than putting in place a system of internal control that is embedded in the lead agency's processes, and prevents noncompliance from occurring in the first place.

The second reminder is that single audits are not a substitute for fiscal monitoring by the lead agency. The compliance supplement includes only a fraction of the IDEA and cross-cutting fiscal requirements that apply to Part C programs and, as we mentioned earlier, there is no guarantee that the Part C program will be directly audited in a given fiscal year.

In short, the lead agency should have a variety of both preventative and detective controls ensuring that IDEA Part C funds are being spent in a manner that supports infants and toddlers with disabilities and their families.

# Downloadable Resources

Click on the images to download a presentation handout for this module and a list of all cited Regulations



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